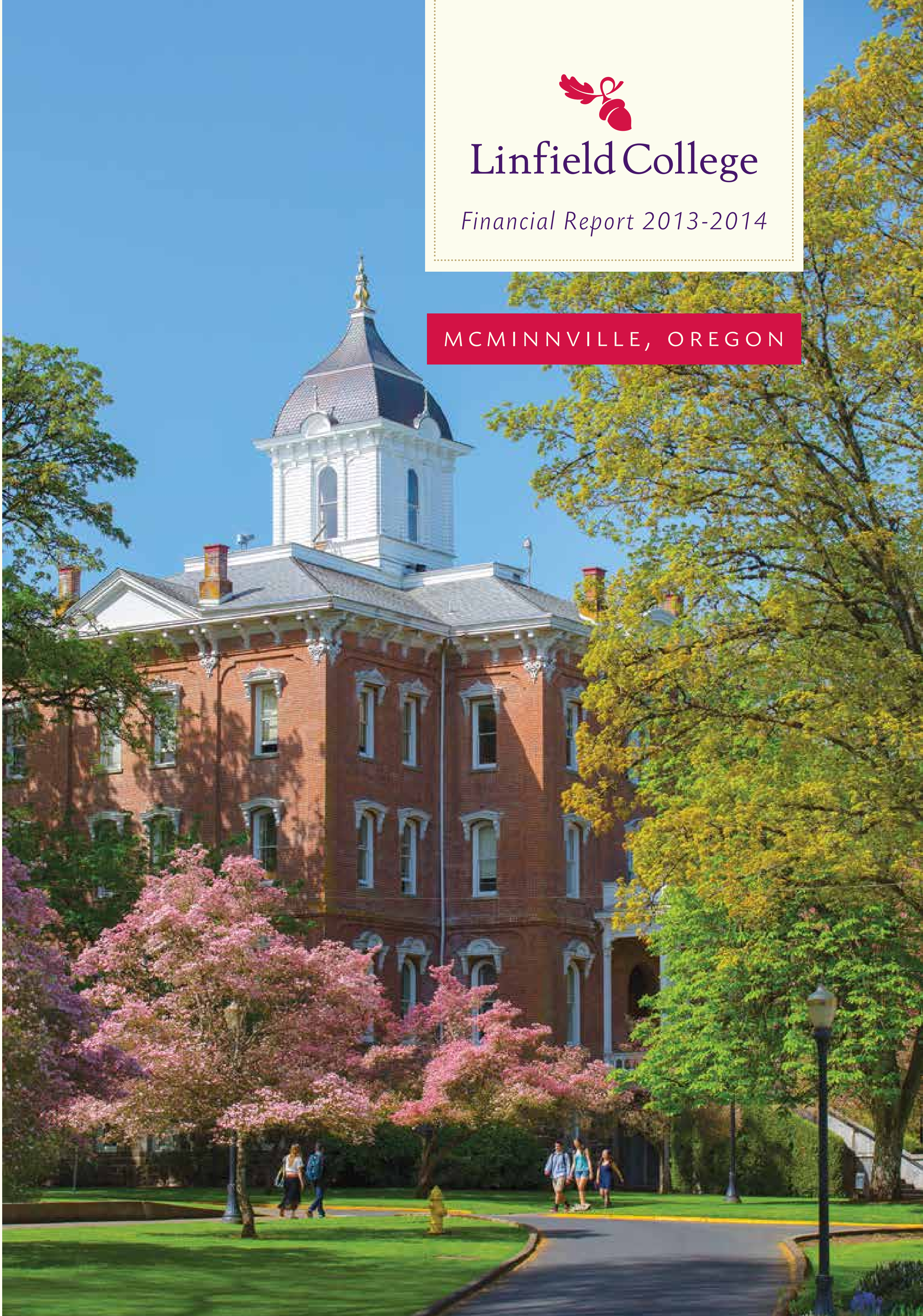
Linfield College

Financial Report 2013-2014

MCMINNVILLE, OREGON



Vice President for Finance & Administration/CFO

October 31, 2014

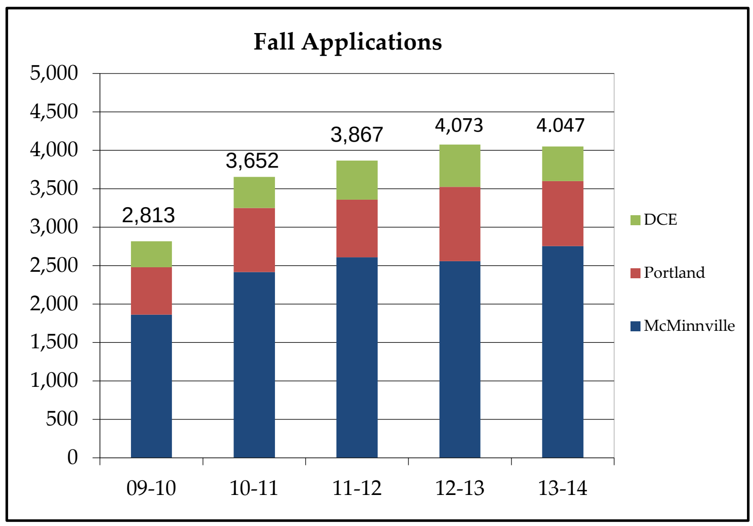
The Board of Trustees
Linfield College
McMinnville, OR   97128

Dear Ladies and Gentlemen:

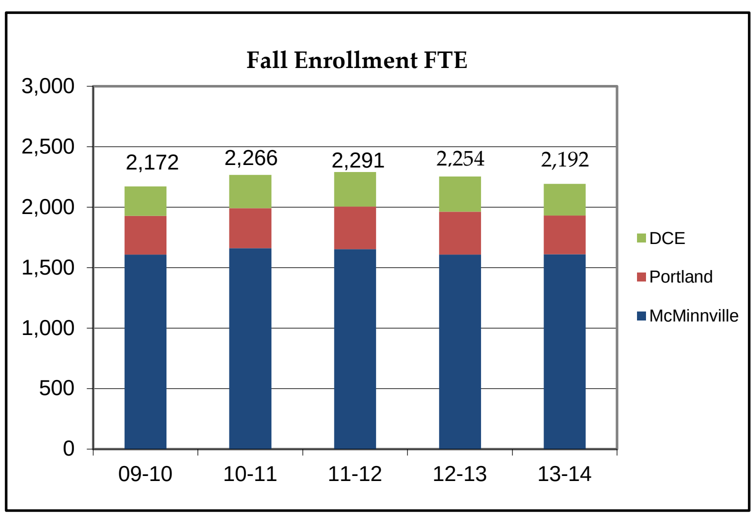
The following Linfield College Fiscal Year (FY) 2013-2014 financial statements, audited by KPMG LLP, provide significant detail for the year ended June 30, 2014. This cover letter is included to offer some historical context for a select list of key indicators. By focusing on the five-year trends, readers should improve their knowledge of Linfield's economic situation.

New Applications & Fall Enrollment

The fall application and enrollment graphs separately identify students in McMinnville, Portland, and the Division of Continuing Education (DCE). Applications were down by 26 from the Fall of 2012 to Fall 2013.



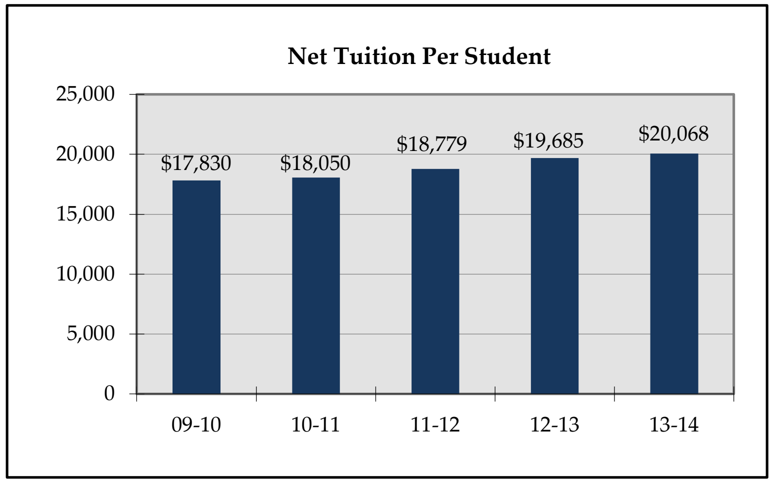
The most common enrollment benchmark for colleges and universities is to measure full-time equivalent (FTE) students at a fixed point, following the start of the fall semester. FTE is calculated by dividing the total number of credit hours being taken by 15, the standard load for a full-time student. This does not measure the total number of students on campus, which is called headcount.



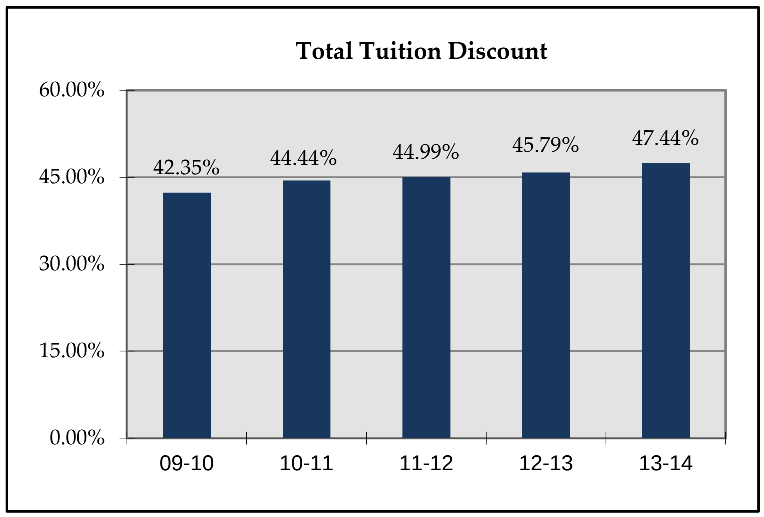
FTE enrollment is positively affected by the number of first-year students and transfers coming to campus and negatively impacted by withdrawals, transfers from campus, and graduations. The Fall 2013 FTE for all programs combined was down 62 from the Fall of 2012. FTE enrollment on the McMinnville Campus was up by 5 while the Portland Nursing program was down by 37 and the DCE program was down by 30 FTE.

Net Tuition per Student and Total Tuition Discount

Net tuition revenue is the single largest factor in determining the annual funding for the college. Net tuition revenue reflects total tuition less financial aid discounts provided by the college, while net tuition per student is the division of net tuition revenue by the average annual financial FTE enrollment number. During FY2013-2014 net tuition per student climbed from $19,685 to $20,068. This represents a 1.9% increase from FY2012-2013.



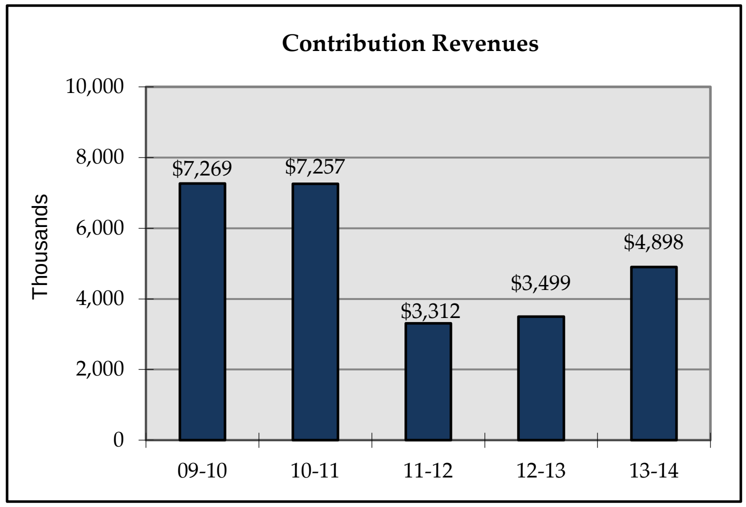
Total tuition discount reflects the amount of financial aid provided by the college (via the operating budget, endowment scholarships, etc.) divided by gross tuition. This increased by 1.65%; compared to the past two years which were up .55% and .80%, respectively.



Due to the extremely small number of DCE students receiving financial aid, DCE revenue is not included in the calculation of Net Tuition per Student nor Total Tuition Discount data.

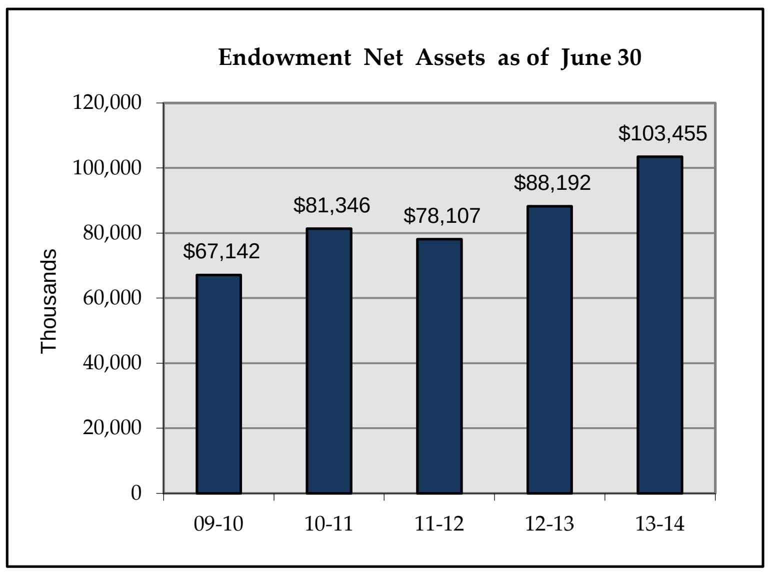
Contribution Revenues

Annual contributions are very important for the fiscal health of the college, but the total amount can vary widely from year to year. This variability is a function of factors such as general economic conditions, tax law changes, major gifts and campaigns for specific capital projects. During FY2013-2014, Linfield received nearly $4.9 million in gifts and changes in pledge balances, reflective of a year with no large capital campaign and average dollars from realized bequests. Unrestricted gift revenue that was part of the college's operating budget in 2013-14 exceeded the budgeted amount by $40,409.



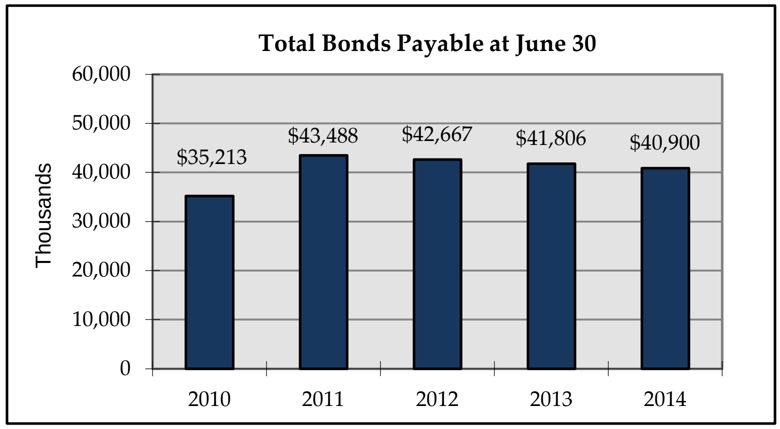
Total Endowment Net Assets

For the fiscal year ended June 30, 2014, Linfield's endowment portfolio had an overall net return of 18.1% (compared to our Custom Index of 16.2%). Linfield performed in the top 13% of endowments of $50 million - $250 million for FY2013-2014, in the top 23% over the last 5 years, the top 15% over the past 7 years, and the <u>top 3% over the past 10 years</u>. At year end, the endowment net assets market value was $103.5 million. The more conservatively invested life income trusts were valued at an additional $12.8 million.

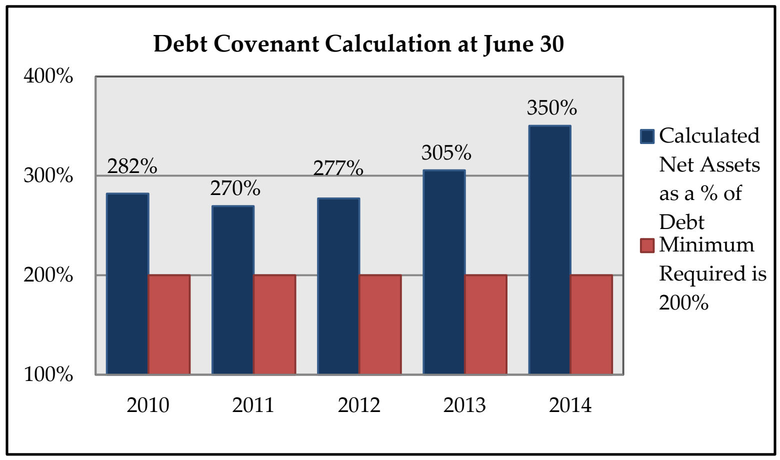


Total Bond Debt and Debt Covenant Calculation

Prior to June 30, 2010, no new debt had been issued since May 2005. Bonds in the amount of $23.385 million were issued in August 2010, but the net debt increase from June 2010 to June 2011 was $8.3 million after refunding of prior bonds (plus bond issuance and underwriter fees). Moody's Investors Service maintained the college's credit rating at Baa1 during their FY2012-2013 review, and will review it again in FY2014-2015.

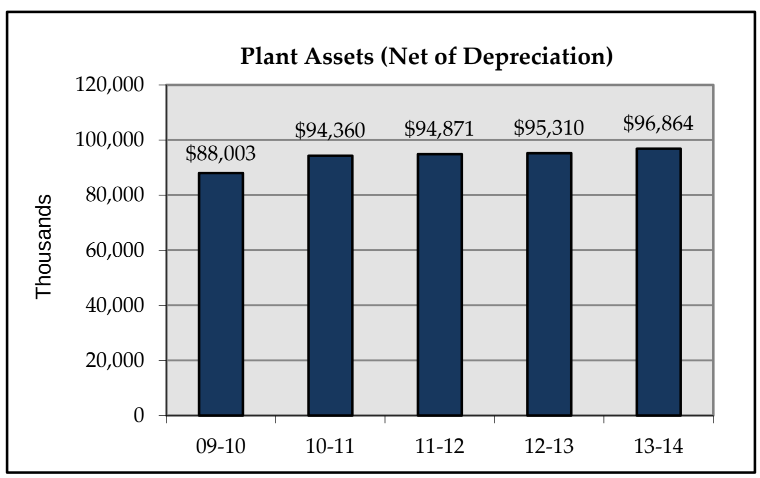


The 2010 bond issue reduced the annual debt service payments through 2024, but extended the debt payment timeline from 2031 to 2041. The new bond funds were earmarked for a portion of the T.J. Day Hall renovation costs and other capital projects (which included the recent Melrose Hall updates). There has been an average increase of 17.1% in net assets as a percent of debt for the periods of FY2009-2010 through FY2013-2014.)



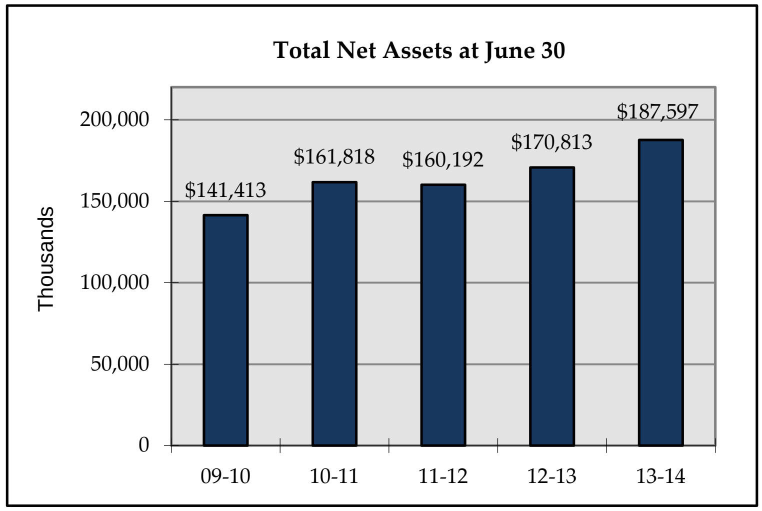
Plant Assets

Plant assets, net of depreciation, increased from $95.3 million to $96.9 million. This represents an increase of $1.6 million or approximately 1.6% from June 30, 2013 to June 30, 2014.



Total Net Assets

Total net assets increased by $16.8 million from $170.8 million in FY2012-2013 to $187.6 million in FY2013-2014, a 9.8% increase. Positive returns in our long-term investments, contributions/gifts to the endowment and conservative fiscal operations accounted for the majority of this increase.



Summary

Linfield College finished FY 2013-2014 with a positive operating balance for the 40th consecutive year. The College also continued to pursue the goals of the 2012-2018 Strategic Plan, which guides purposeful resource allocations in support of our mission, including academic support, student services, enrollment initiatives, external relations and marketing and infrastructure improvements. Our culture of fiscal integrity and responsibility at all levels, along with our student-centered approach, helps the College maintain a positive financial position and serve our diverse student body.

Consistent with the Strategic Plan, this year we reorganized our Division of Continuing Education to integrate it more fully with the College. Also, the PLACE (Program for Liberal Arts and Civic Engagement) project, connecting learning opportunities across the curriculum, continued to flourish, especially for our first year students.

The Walker Hall renovation, aligning political science, international studies and the international program office, was completed in the 2014 summer. And the soon-to-be-completed renovation of the lower floor of Melrose Hall will provide a centralized space to more efficiently serve our students.

We will continually work to fulfill our mission and enhance the educational experiences of our outstanding students. Linfield College is a supportive community, where success is both an individual and a collaborative effort. Our close-knit environment encourages students from different backgrounds and disciplines to learn, grow and explore. Truly, this is The Power of a Small College.

Respectfully Submitted,

MARodriguez

Mary Ann Rodriguez
Vice President for Finance and Administration/CFO

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Independent Auditors' Report

The Board of Trustees
Linfield College:

Report on the Financial Statements

We have audited the accompanying financial statements of Linfield College (the College) (an Oregon nonprofit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Linfield College as of June 30, 2014 and 2013, and the change in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the College's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal controls over financial reporting and compliance.

KPMG LLP

October 31, 2014

LINFIELD COLLEGE

Statements of Financial Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Assets:			
Cash and cash equivalents	$	2,473,787	5,848,717
Accounts and notes receivable, net		8,072,736	7,828,055
Interest receivable		254,414	293,272
Prepaid expenses and other assets		1,555,485	2,102,284
Contributions receivable, net		646,217	440,249
Inventory		27,670	12,066
Investments		126,125,027	106,692,956
Assets held in trust by others		8,601,216	7,869,422
Plant assets, net		96,864,033	95,309,774
Total assets	$	244,620,585	226,396,795
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	6,237,839	4,378,705
Deferred revenue		2,660,947	2,538,552
Notes payable		51,326	—
Bonds payable		40,899,886	41,805,762
U.S. government grants refundable		4,460,704	4,494,227
Obligations for split-interest agreements		2,712,789	2,366,995
Total liabilities		57,023,491	55,584,241
Net assets:			
Unrestricted:			
Operations and designated funds		8,333,741	8,105,068
Quasi-endowment		40,009,850	33,351,546
Net investment in plant		59,400,090	59,480,495
Total unrestricted		107,743,681	100,937,109
Temporarily restricted		35,757,561	26,773,343
Permanently restricted		44,095,852	43,102,102
Total net assets		187,597,094	170,812,554
Total liabilities and net assets	$	244,620,585	226,396,795

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statement of Activities

Year ended June 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and losses:				
Student charges:				
Tuition and fees	$ 77,683,057	—	—	77,683,057
Less student financial aid	(33,118,878)	—	—	(33,118,878)
Tuition and fees, net	44,564,179	—	—	44,564,179
Contributions	1,997,945	2,092,466	807,652	4,898,063
Contracts and other exchange transactions	841,871	5,000	—	846,871
Investment income	664,461	1,013,103	34,844	1,712,408
Net realized/unrealized gains on investments	5,873,559	9,236,912	192,337	15,302,808
Other income	1,787,920	17,000	—	1,804,920
Sales and services of auxiliary enterprises	11,687,018	—	—	11,687,018
Total revenues and gains	67,416,953	12,364,481	1,034,833	80,816,267
Net assets released from restrictions	3,587,131	(3,587,131)	—	—
Total revenues, gains, and other support	71,004,084	8,777,350	1,034,833	80,816,267
Expenses:				
Education and general:				
Instruction	25,304,814	—	—	25,304,814
Academic support	4,625,824	—	—	4,625,824
Student services	10,513,849	—	—	10,513,849
Institutional support	8,531,853	—	—	8,531,853
Operation and maintenance of plant	3,395,323	—	—	3,395,323
Depreciation	3,411,118	—	—	3,411,118
Interest and amortization on indebtedness	2,038,135	—	—	2,038,135
Total education and general	57,820,916	—	—	57,820,916
Auxiliary enterprises	6,130,831	—	—	6,130,831
Total expenses	63,951,747	—	—	63,951,747
Change in value of split-interest agreements	(245,765)	206,868	(41,083)	(79,980)
Change in net assets	6,806,572	8,984,218	993,750	16,784,540
Net assets at beginning of year	100,937,109	26,773,343	43,102,102	170,812,554
Net assets at end of year	$ 107,743,681	35,757,561	44,095,852	187,597,094

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statement of Activities

Year ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and losses:				
Student charges:				
Tuition and fees	$ 74,949,723	—	—	74,949,723
Less student financial aid	(30,669,603)	—	—	(30,669,603)
Tuition and fees, net	44,280,120	—	—	44,280,120
Contributions	1,156,146	1,153,009	1,189,634	3,498,789
Contracts and other exchange transactions	1,196,108	2,000	—	1,198,108
Investment income	805,316	1,175,013	52,107	2,032,436
Net realized/unrealized gains on investments	4,074,623	5,874,657	177,283	10,126,563
Other income	1,470,030	6,300	—	1,476,330
Sales and services of auxiliary enterprises	11,170,599	—	—	11,170,599
Total revenues and gains	64,152,942	8,210,979	1,419,024	73,782,945
Net assets released from restrictions	3,613,747	(3,613,747)	—	—
Total revenues, gains, and other support	67,766,689	4,597,232	1,419,024	73,782,945
Expenses:				
Education and general:				
Instruction	25,957,108	—	—	25,957,108
Academic support	4,050,441	—	—	4,050,441
Student services	10,054,474	—	—	10,054,474
Institutional support	7,966,171	—	—	7,966,171
Operation and maintenance of plant	3,311,373	—	—	3,311,373
Depreciation	3,299,020	—	—	3,299,020
Interest and amortization on indebtedness	2,069,291	—	—	2,069,291
Total education and general	56,707,878	—	—	56,707,878
Auxiliary enterprises	5,945,583	—	—	5,945,583
Total expenses	62,653,461	—	—	62,653,461
Other changes and transfers among funds	156,966	(107,258)	—	49,708
Change in value of split-interest agreements	(240,857)	(58,072)	(260,092)	(559,021)
Change in net assets	5,029,337	4,431,902	1,158,932	10,620,171
Net assets at beginning of year	95,907,772	22,341,441	41,943,170	160,192,383
Net assets at end of year	$ 100,937,109	26,773,343	43,102,102	170,812,554

See accompanying notes to financial statements.

LINFIELD COLLEGE

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 16,784,540	10,620,171
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,417,114	3,305,015
Actuarial change in split-interest agreements	(235,310)	(3,711)
Reinvested dividends and net realized and unrealized (gain) on long-term investments	(16,788,216)	(10,126,563)
Contributions restricted for long-term investment	(1,033,933)	(1,321,781)
Noncash contributions	(832,865)	(181,470)
Changes in current assets/liabilities:		
Decrease in interest receivable	38,858	2,409
(Increase) in accounts and notes receivable, net	(244,681)	(452,090)
(Increase) decrease in contributions receivable	(205,968)	163,325
(Increase) decrease in inventory	(15,604)	9,219
Decrease (increase) in prepaid expenses and other assets	514,926	(328,861)
Increase in accounts payable and accrued liabilities	1,859,134	892,713
Increase in deferred revenue	122,395	266,417
Decrease in U.S. government grants refundable	(33,523)	(17,487)
Increase in obligations for split-interest agreements	568,978	632,897
Net cash provided by operating activities	3,915,845	3,460,203
Cash flows from investing activities:		
Purchase of plant and equipment	(4,965,377)	(3,737,707)
Proceeds from sale and maturities of investments	20,856,582	17,246,253
Purchases of investments	(23,161,831)	(18,672,705)
Net cash used in investing activities	(7,270,626)	(5,164,159)
Cash flows from financing activities:		
Cash contributions restricted for:		
Endowment	599,459	915,451
Annuities and trusts	(53,701)	214,337
Plant	495,422	191,993
Proceeds from sale of donated financial assets	18,798	—
Proceeds from financing vehicles	51,326	—
Principal payments on bonds payable	(880,000)	(835,000)
Payments on obligations for split-interest agreements	(251,453)	(529,520)
Net cash used in financing activities	(20,149)	(42,739)
Net decrease in cash and cash equivalents	(3,374,930)	(1,746,695)
Cash and cash equivalents at beginning of year	5,848,717	7,595,412
Cash and cash equivalents at end of year	$ 2,473,787	5,848,717
Supplemental cash flow disclosure:		
Cash paid for interest	$ 2,054,525	2,097,400
Supplemental schedule of noncash investing and financing activities:		
Gifts of marketable assets for current use or long-term use	$ 371,725	112,046

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Summary of Operations

Linfield College (the College) is an accredited four-year, private, coeducational, liberal arts and science institution located in McMinnville and Portland, Oregon. The College serves more than 2,500 students from 30 states and 22 foreign countries and offers 46 majors.

(b) Accrual Basis Accounting

The financial statements of the College have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles.

(c) Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The definitions used to clarify and report net assets are as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the College or the passage of time
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be permanently maintained by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets with the exception of the change in value of split-interest agreements. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted either by donor stipulation or by law. Expirations of temporary restrictions are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the donor-imposed conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the date of gift. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Income and net gains or losses on investments of endowment and similar funds are reported as follows:

- Increases or decreases in permanently restricted net assets if the terms of the gift or the College’s interpretation of relevant state law requires they be added to or subtracted from the principal of a permanently restricted net asset.
- Increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income.

- Increases or decreases in unrestricted net assets in all other cases.

(d) Investments

Investments in marketable equity securities and all debt securities are stated at fair value.

The College has certain investments in real estate and related assets that were recorded at cost when purchased or fair value on the date of gift, as appropriate. These investments remain at their initial value and are not marked to fair value each reporting period.

The College follows the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(e) Plant Assets, Net

The College's plant facilities are stated at cost or fair value at the date of donation (in the case of gifts), less accumulated depreciation. All plant assets, other than land, are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives used to calculate depreciation are as follows:

Buildings	70 years
Building improvements	30 years
Library books	10 years
Land improvements	30 years
Furniture and equipment	10 years

(f) Inventory

Inventory consists primarily of Campus Mail Center postage and information technology (computer department) supplies as of June 30, 2014 and 2013 and is recorded at the lower of cost (first-in, first-out) or market.

The College is leasing its bookstore to Barnes & Noble. Barnes & Noble is providing all bookstore services for the University under the terms of a lease agreement ending in June 2017. During the term of the lease, Barnes & Noble will pay the College a guaranteed payment or a percentage of bookstore sales, whichever is greater.

(g) Bond Issuance Costs

Bond issuance costs (including bond issue costs, bond discounts, and bond premiums) represent amounts amortized by the College in connection with the issuance of the 2005 and 2010 Oregon Facilities Authority Bonds. See note 13 for further discussion.

The remaining unamortized portion of bond issuance costs and discounts are reported as a component of prepaid expenses and other assets in the accompanying statements of financial position and the remaining unamortized premiums are included in bonds payable on the statements of financial position. Amortization is calculated using a method that approximates the effective yield over the life of the bonds.

(h) Deferred Revenue

Deferred revenue consists primarily of prepayments of tuition and fees related to future academic semesters.

(i) Split-Interest Agreements

The College uses an actuarial method to record certain split-interest arrangements. Under this method, the present value of the payments to beneficiaries is estimated based upon life expectancy tables when the gift is received. The present value of those payments is recorded as a liability and the remainder as temporarily restricted net assets. Periodic adjustments are made between the liability and the net assets to record actuarial gains or losses. The discount rates used by the College in calculating present value of all split-interest agreements range from 1.2 % to 8.2 % at June 30, 2014.

(j) Fair Value of Financial Instruments

At June 30, 2014 and 2013, the carrying values of cash and cash equivalents, accounts and contributions receivable, accounts payable, accrued liabilities, and split-interest agreements approximate fair value due to the short-term nature of these instruments. Taking into account current borrowing rates as of June 30, 2014, the fair value of the College’s bonds payable approximates $46,647,000 as compared to its carrying value of $40,900,000. At June 30, 2013, the fair value of the College’s bonds payable approximated $53,128,000 as compared to its carrying value of $41,806,000. The fair value of bonds as of June 30, 2014 and 2013 reflects the difference between the current market rate and the College’s actual average interest rate being paid on all debt obligations.

(k) Income Taxes

The College is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC, except to the extent of unrelated business income tax under Sections 511 through 515 of the IRC. Unrelated business income tax is insignificant or nonexistent, and therefore, no tax provision has been made.

Accounting principles generally accepted in the United States of America require the College's management to evaluate tax positions taken by the College and recognize a tax liability (or asset) if the College has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the College and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The College is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The College's management believes it is no longer subject to income tax examinations for years prior to 2010.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Cash Equivalents

The College considers all highly liquid debt instruments purchased with a maturity of three months or less to represent cash equivalents, except for certain cash equivalents included in the investment portfolio that are intended to be invested on a long-term basis. Cash equivalents are invested in money market accounts or other short-term fixed income investments and are stated at cost, which approximates fair value. The College held $1,011 and $5,175,000 in cash equivalents at June 30, 2014 and 2013, respectively. Federal depository insurance currently provides protection for cash deposits, up to $250,000 per account. At June 30, 2014 and 2013, bank balances of $250,000 were insured by the Federal Deposit Insurance Corporation.

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 are restricted for the following purposes:

	2014	2013
Term endowments and accumulated endowment return:		
Instruction and operations	$ 8,450,933	5,468,206
Student aid	11,782,452	7,047,142
Endowment distributions available for:		
Instruction and operations	2,037,513	2,063,099
Student aid	612,834	502,988
Funds from split-interest agreements	9,833,669	9,233,190
Plant	1,232,545	604,114
Designated student loan funds	351,575	352,021
Other designated funds	1,456,040	1,502,583
	$ 35,757,561	26,773,343

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2014 and 2013 are restricted for the following purposes:

	2014	2013
Endowments:		
Instruction and operations	$ 16,917,393	16,601,593
Student aid	26,294,252	25,569,686
Contribution receivables	—	153,723
	43,211,645	42,325,002
Other		
Split-interest agreements (restricted for future endowments)	884,207	777,100
	$ 44,095,852	43,102,102

(5) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended June 30, 2014 and 2013 as follows:

		2014	2013
Purpose restrictions accomplished:			
Instruction and operations	$	863,417	712,318
Academic support		88,158	96,183
Student services		223,080	485,144
Institutional support		136,590	1,328
Scholarships		1,687,446	1,817,442
Operations and maintenance of plant		9,143	3,584
Purchase or renovation of plant assets		124,603	7,483
Annuity/trust/life income		454,694	490,265
	$	3,587,131	3,613,747

(6) Tuition and Fees

Student tuition and fee revenues for the years ended June 30, 2014 and 2013 consist of the following:

		2014	2013
Tuition and fees	$	77,683,057	74,949,723
Less:			
Unfunded financial aid (institutional tuition discount)		(30,786,505)	(28,197,756)
Funded financial aid (endowed or other designations)		(2,332,373)	(2,471,847)
Tuition and fees, net	$	44,564,179	44,280,120

(7) Liquidity

Summarized information regarding the liquidity of assets and liabilities of the College as of June 30, 2014 and 2013 is as follows:

		2014	2013
Total current assets	$	18,344,949	12,836,578
Total long-term assets		226,275,636	213,560,217
Total assets	$	244,620,585	226,396,795
Total current liabilities	$	9,863,732	7,778,133
Total long-term liabilities		47,159,759	47,806,108
Total liabilities		57,023,491	55,584,241
Net assets		187,597,094	170,812,554
Total liabilities and net assets	$	244,620,585	226,396,795

(8) Investments

Investments comprise the following at June 30, 2014 and 2013:

		2014	2013
Restricted cash and cash equivalents	$	3,603,934	6,211,601
Fixed income securities		29,026,039	19,399,635
Domestic equities		40,916,941	37,791,579
International equities		27,559,732	20,896,655
Preferred equities		—	76,528
Marketable Alternatives		8,609,780	7,341,281
Real return assets		4,649,406	3,738,986
Life income assets with trustees:			
Cash and cash equivalents held for reinvestment		156,419	158,214
Equity funds		2,128,014	2,412,535
Fixed income funds		2,833,042	2,024,222
Subtotal		119,483,307	100,051,236
Real property held for investment		6,641,720	6,641,720
Total investments	$	126,125,027	106,692,956

(Continued)

Certain net asset balances (found in note 18) differ from investment balances presented below due to other assets, liabilities, or timing of transactions between funds. The values of total investments as allocated by designation or donor restriction at June 30, 2014 and 2013 are as follows:

		2014	2013
Quasi-endowment	$	39,636,097	33,351,546
Endowment (temporarily and permanently restricted)		63,378,374	54,840,349
Split-interest agreements		4,894,869	4,534,711
Bond funds and reserves		4,831,760	4,986,034
CD's and other bank investments		10,750,000	4,500,000
Assets invested in plant		2,276,720	2,276,720
Other		357,207	2,203,596
Total investments	$	126,125,027	106,692,956

The College signed a 40-year operating land lease on July 1, 2003 as the lessor for land included in real property held for investment. The College has leased 342,817 square feet of land. The minimum future rental income associated with this lease is as follows:

Year ending June 30:		
2015	$	188,977
2016		188,977
2017		188,977
2018		188,978
2019		190,552
Thereafter		2,035,522
	$	2,981,983

Revenue from the lease is recognized ratably over the life of the lease.

All endowed and quasi-endowed investments are carried in the investment pool unless special considerations or donor stipulations require that they be held separately. Pooled investments are managed under the total return concept (unit fair value method). All life income assets are invested with money managers separate from the endowment investment pool, unless special considerations require that they be held collectively. At June 30, 2014 and 2013, the life income assets primarily consisted of equity and fixed income mutual funds.

As of June 30, 2014 and 2013, restricted cash and cash equivalents (under investments) include $3,603,934 and $6,211,601, respectively, consisting of short-term (more than 90 days) operating cash investments and bond project funds and reserves related to the 2005 and 2010 Series A, Oregon Facilities Authority Bonds. These bonds are described in note 13(a) and (b).

The following table presents financial instruments that are measured at fair value on a recurring basis according to the ASC 820 hierarchy as of June 30, 2014:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Redemption notice period
Assets:						
Assets held in trust by others	$ 8,601,216	—	—	8,601,216	N/A	N/A
Investments:						
Restricted cash equivalents	$ 2,353,934	2,353,934	—	—	Daily	1 day
Certificates of deposit	1,250,000	—	1,250,000	—	Daily	1 day
Domestic equities:						
Large cap mutual funds	30,000,451	30,000,451	—	—	Daily	1 day
Small cap mutual funds	10,916,490	10,916,490	—	—	Daily	1 day
International equities:						
Large cap mutual funds	21,574,053	21,574,053	—	—	Daily	1 day
Small cap mutual funds	5,985,679	5,985,679	—	—	Daily	1 day
Fixed income securities and funds:						
Bonds funds	18,931,954	18,931,954	—	—	Daily	1 day
Agency funds	7,745,093	7,745,093	—	—	Daily	1 day
Commercial paper	2,348,992	2,348,992	—	—	Daily	1 day
Marketable alternatives	8,609,780	—	8,609,780	—	Quarterly	30-45 days
Real return assets	4,649,406	4,649,406	—	—	Daily	1 day
Life income assets with trustees:						
Fixed income fund	2,128,014	—	2,128,014	—	Monthly	30 days
Equity fund	2,290,060	2,290,060	—	—	Monthly	30 days
Mutual funds:						
International growth fund	402,216	402,216	—	—	Daily	1 day
Real estate fund	140,766	140,766	—	—	Daily	1 day
Cash and cash equivalents held for investment	156,419	156,419	—	—	Daily	1 day
	119,483,307	107,495,513	11,987,794	—		
Real property held for investment	6,641,720					
	$ 126,125,027					

The following table presents financial instruments that are measured at fair value on a recurring basis according to the ASC 820 hierarchy as of June 30, 2013:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Redemption notice period
Assets:						
Assets held in trust by others	$ 7,869,422	—	—	7,869,422	N/A	N/A
Investments:						
Restricted cash equivalents	$ 4,711,602	4,711,602	—	—	Daily	1 day
Certificates of deposit	1,500,000	—	1,500,000	—	Daily	1 day
Domestic equities:						
Large cap mutual funds	27,127,677	27,127,677	—	—	Daily	1 day
Small cap mutual funds	10,663,903	10,663,903	—	—	Daily	1 day
Preferred equities	76,528	76,528	—	—	Daily	1 day
International equities:						
Large cap mutual funds	16,333,893	16,333,893	—	—	Daily	1 day
Small cap mutual funds	4,562,763	4,562,763	—	—	Daily	1 day
Fixed income securities and funds:						
Bonds funds	16,151,919	16,151,919	—	—	Daily	1 day
Agency funds	3,247,715	3,247,715	—	—	Daily	1 day
Marketable alternatives	7,341,281	—	7,341,281	—	Quarterly	30–45 days
Real return assets	3,738,986	3,738,986	—	—	Daily	1 day
Life income assets with trustees:						
Fixed income fund	2,024,221	2,427	2,021,794	—	Monthly	30 days
Equity fund	1,963,743	1,963,743	—	—	Monthly	30 days
Mutual funds:						
International growth fund	335,914	335,914	—	—	Daily	1 day
Real estate fund	112,877	112,877	—	—	Daily	1 day
Cash and cash equivalents held for investment	158,214	158,214	—	—	Daily	1 day
	100,051,236	89,188,161	10,863,075	—		
Real property held for investment	6,641,720					
	$ 106,692,956					

Real property held for investment is recorded at cost. As such, these assets are not subject to the fair value leveling requirements in the above table.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

(a) Assets Held in Trusts by Others

The College’s interest in irrevocable perpetual agreements held or controlled by a third party is classified as Level 3. The underlying investments in these trusts include marketable securities as well as directly held real estate. The value of the College’s beneficial interest is primarily established using unobservable inputs, such as specific estimates of cash flows. Since the College has an irrevocable right to receive the income earned for the trust's assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trust's assets.

(b) Restricted Cash Equivalents

The short-term investments of the College consist of actively traded, observable inputs (money market accounts, Federated Treasury Obligations, Bankers' Acceptance Notes, Commercial Paper and Certificates of Deposit) classified as Level 1 or Level 2 as appropriate.

(c) Domestic Equities

Investments in domestic equities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. This category includes large and small cap funds located in the United States.

(d) Preferred Equities

Investments in preferred stock are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

(e) International Equities

Investments in international equities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. This category includes large and small cap funds located outside the United States.

(f) Fixed Income Securities and Funds

Fixed income investments are measured at fair value using quoted market prices. They are classified as either Level 1 (for those assets traded in an active market for which closing stock prices are readily available) or Level 2 (for those assets whose value is directly observable but are infrequently traded). This category includes both U.S. Treasury bond funds, government agency funds, as well as publicly traded bond funds.

(g) Marketable Alternatives

Investment in the marketable alternatives are measured at fair value using quoted market prices. It is classified as Level 2 as it is traded in foreign markets, but may be infrequently traded.

(h) Real Return Assets

Investments in these funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which daily prices are readily available. This consists of a multistrategy fund that invests in several fixed income and equities categories and funds.

(Continued)

(i) Life Income Assets with Trustees

Investment in life income assets are those that are associated with split-interest agreements, whose investments are classified as either Level 1 or Level 2 depending upon the respective inputs. The investments that are classified as Level 1 are traded in active markets for which closing stock prices are readily available and include mutual funds (with both an international and real estate industry focus) and cash equivalents.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

(j) Assets Held in Trust by Others - Activity at Level 3

The following table presents a reconciliation of the statements of financial position amounts for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2014 and 2013:

Balances, June 30, 2012	$	7,561,624
Net realized and unrealized gains included in change in net assets		238,374
Dividends		—
Purchases		69,424
Sales		—
Settlements		—
Transfers out of Level 3		—
Balances, June 30, 2013		7,869,422
Net realized and unrealized gains included in change in net assets		272,087
Dividends		
Purchases		459,707
Sales		—
Settlements		—
Transfers out of Level 3		—
Balances, June 30, 2014	$	8,601,216

(9) Accounts and Notes Receivable, Net

Accounts and notes receivable at June 30, 2014 and 2013 consist of the following:

		2014	2013
Student accounts receivable	$	1,294,000	1,485,341
Perkins loans		3,837,724	3,540,585
Nursing student loans		1,785,902	1,709,139
Other student loans		1,134,031	1,127,621
Other receivables		1,120,343	1,073,491
		9,172,000	8,936,177
Less allowance for doubtful accounts		(1,099,264)	(1,108,122)
	$	8,072,736	7,828,055

It is the College's obligation to collect loans made under the Perkins Loan Program (the Program). The loans are payable, including interest at 5%, over approximately 10 years following college attendance. Principal payments, interest, and losses due to cancelation are shared by the College and the U.S. government in proportion to their share of funds provided (approximately 83.6% of the funds have been provided by the U.S. government). The Program provides for cancelation of the loans if the student is employed in certain occupations following graduation (employment cancelations). Such employment cancelations are absorbed in full by the U.S. government.

(10) Credit Quality of Financing Receivables

The College's financing receivables consist of revolving loan funds for Federal Perkins Loans and Federal Nursing Student Loans (NSL) for which the College acts as an agent for the federal government, and institutional loan funds created by the College to assist students in funding their education. Student loans represent 2.8% of total assets of the College.

The availability of funds for loans under all three programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds held in the federal loan programs at June 30, 2014 and 2013 of $4,460,704 and $4,494,227, respectively, are ultimately refundable to the government and are classified as a liability in the statements of financial position.

Balances of financing receivables as of June 30, 2014 and 2013 are presented as follows:

		2014	2013
Perkins loans	$	3,837,724	3,540,585
Nursing student loans		1,785,902	1,709,139
Institutional loans		1,134,031	1,127,621
Allowance		(1,015,813)	(991,401)
Total, net	$	5,741,844	5,385,944

For each class of financing receivables, the following table presents the performing and nonperforming portion of the financing receivables as of June 30, 2014:

		Performing	Nonperforming (defaulted)	Total
Perkins loans	$	3,384,726	452,998	3,837,724
Nursing student loans		1,653,067	132,835	1,785,902
Institutional loans		262,707	871,324	1,134,031
Total	$	5,300,500	1,457,157	6,757,657

The aging of financing receivables as of June 30, 2014 is presented as follows:

Aging		31-60	61-90	91+	Total past due	Total current	Total
Perkins loans	$	115,881	17,711	369,638	503,230	3,334,494	3,837,724
Nursing student loans		93,040	9,113	86,077	188,230	1,597,672	1,785,902
Institutional loans		21,268	29,346	941,924	992,538	141,493	1,134,031
Total	$	230,189	56,170	1,397,639	1,683,998	5,073,659	6,757,657

Allowances for estimated losses are established based on prior collection experience and observed trends in the rate of default, analyzed periodically. Loan balances are written off when they are deemed to be permanently uncollectible. Since student loans under the Perkins loan program and Federal Nursing Student Loans (NSL) can be assigned to the government when no longer collectible, a Perkins Loan write-off will reduce a portion of the amount refundable to the government. Changes in the allowance for estimated losses on financing receivables as of June 30, 2014 are presented as follows:

Allowances for uncollectible accounts:

		Perkins	NSL	Institutional	Total
June 30, 2013	$	447,450	131,382	412,569	991,401
Write-off		(A)	(A)	(71,032)	(71,032)
Recovery		(B)	(B)	—	—
Allowance adjustment		(36,805)	13,786	118,363	95,344
June 30, 2014	$	410,645	145,168	459,900	1,015,713

(A) $56,550 of Perkins was assigned to the federal government in the fiscal year ended June 30, 2014 (not included in “Write-off” above); these are tracked separately from “Allowances for uncollectible accounts.”

(B) Government does not repay the College once principal is assigned.

(Continued)

(11) Contributions Receivable, Net

At June 30, 2014, the College has received unconditional promises to give of $997,306, which are shown net of unamortized discount and an allowance for doubtful pledges. Pledges receivable were discounted using an interest rate commensurate with the risks involved and are discounted at rates ranging from 0.38% to 0.74% as of June 30, 2014. Annual payments are scheduled to be received as follows:

		2014	2013
Amounts due in:			
Amounts receivable in less than one year	$	535,055	189,329
Amounts receivable in one to five years		462,251	390,000
		997,306	579,329
Less unamortized discount		(1,089)	(14,080)
Less allowance for doubtful pledges		(350,000)	(125,000)
	$	646,217	440,249

(12) Plant Assets, Net

Plant assets at June 30, 2014 and 2013 consist of the following:

		2014	2013
Land	$	8,640,922	8,640,922
Land improvements		5,815,259	5,815,259
Buildings and improvements		104,506,178	101,633,878
Furniture, equipment, library books, and artwork		31,070,068	29,083,643
Construction in progress		863,361	756,709
		150,895,788	145,930,411
Less accumulated depreciation		(54,031,755)	(50,620,637)
	$	96,864,033	95,309,774

(Continued)

(13) Bonds Payable

At June 30, 2014 and 2013, bonds payable consist of the following:

		2014	2013
Oregon Facilities Authority Bonds of 2005 Series A, 3.375% to 5.000%, due serially to 2030 (a)	$	17,075,000	17,955,000
Oregon Facilities Authority Bonds of 2010 Series A, 4.75% to 5.25%, due serially to 2040 (b)		23,385,000	23,385,000
		40,460,000	41,340,000
Add unamortized bond premium		439,886	465,762
	$	40,899,886	41,805,762

(a) In May 2005, the Oregon Facility Authority, on behalf of the College, issued tax-exempt Series A Revenue Bonds in the amount of $19,930,000. Bond proceeds were restricted to: (1) finance the construction of two new residence halls; (2) finance a variety of other capital improvements, including but not limited to, the remodel, retrofit, and/or conversion of College buildings; (3) finance the construction of four additional parking lots; (4) fund the addition to the Reserve Fund; (5) refund a portion of the Issuer's outstanding 2000 Series A Revenue Bonds; and (6) pay a portion of the costs of issuance of the 2005 bonds.

Proceeds from the May 2005 bond issuance were used to refund a portion of the Oregon Facilities Authority Series 2000 bonds with interest rates ranging from 6.50% to 6.75%.

As of June 30, 2014 and 2013, the reserve fund had assets remaining of $1,710,525 and $1,699,669, respectively (at cost). The College is responsible for bond principal and interest payments at 5.00% on the remaining balance. Principal reduction began in 2009 with the final maturation occurring on October 1, 2030. Bonds maturing on or after October 1, 2020 will be subject to redemption at the option of the College, in whole or in part on any date on or after October 1, 2015, in such maturities as are selected by the College, at a price of par plus accrued interest.

(b) On August 1, 2010, the College entered into a Loan Agreement with the State Treasurer of the State of Oregon, acting on behalf of the State of Oregon and on behalf of the Oregon Facilities Authority to issue bonds with an aggregate principal amount of $23,385,000 (the 2010 Bonds).

The proceeds of the 2010 Bonds were loaned to the College for (1) the refunding of all of the Issuer's outstanding Revenue Bonds (Linfield College Project), 1998 Series A; (2) the refunding of all of the Issuer's outstanding Revenue Bonds (Linfield College Project), 2001 Series A; (3) the planning, construction, and financing of capital construction, improvement, remodeling, renovation, and acquisition and installation of equipment for the renovation of Northup Hall and other capital improvements including the construction, remodel, retro-fit, and/or conversion of buildings to different uses and payment of architectural and engineering costs for the foregoing; (4) a reserve fund; (5) capitalized interest; and (6) the payment of costs of issuance of the 2010 Bonds.

As of June 30, 2014 and 2013, the reserve fund had assets remaining of $1,176,462 and $1,178,807, respectively (at cost). The College is responsible for bond principal and interest payments that vary from 4.75% to 5.25%. Principal reduction begins in October 2028 with the final maturation occurring on October 1, 2040. Bonds maturing on or after October 1, 2020 will be subject to redemption at the option of the College, in whole or in part on any date on or after October 1, 2020, in such maturities as are selected by the College, at a price of par plus accrued and unpaid interest. Other mandatory redemption provisions are outlined in the bond prospectus for bonds maturing in 2028, 2031, 2034, and 2040. Each of these bonds is unsecured and is to be redeemed through annual budgeted revenues.

The above 2005 and 2010 Oregon Facilities Authority bonds contained certain covenants, which include the maintenance of certain financial ratios, as defined in the agreements. For the years ended June 30, 2014 and 2013, management believes that the College was in compliance with these covenants.

The projected debt service payments on these obligations of the plant funds are as follows:

		Principal	Interest	Total payments
Year ending June 30:				
2015	$	925,000	2,009,400	2,934,400
2016		970,000	1,962,025	2,932,025
2017		1,020,000	1,912,275	2,932,275
2018		1,070,000	1,860,025	2,930,025
2019		1,130,000	1,805,025	2,935,025
Thereafter		35,345,000	20,578,155	55,923,155
	$	40,460,000	30,126,905	70,586,905

(14) Pension Plan

The College has a defined-contribution retirement plan for all eligible staff and faculty. The plan provides for employee deferrals and for contributions by the College for eligible employees amounting to 11.25% (staff) and 16.00% (faculty) of eligible earnings. The College’s contributions totaled $3,255,469 and $3,143,134, in 2014 and 2013, respectively.

(15) Auxiliary Enterprises

Auxiliary enterprises consist of food service, residence life and bookstore operations, and hosting of outside conferences.

(Continued)

Certain expenses for the operation and maintenance of the College's physical plant have been allocated between education and general and auxiliary enterprises based on a square footage allocation of campus space. Interest has also been allocated to auxiliary enterprises for the portion that was incurred for food service and residence life facilities. Current unrestricted auxiliary enterprise revenues and allocated and direct expenses are as follows:

	2014						
		Bookstore	Food service	Main residence halls	Outside conferences and other	Auxiliary property pool	Total
Revenues	$	115,757	3,818,078	6,282,589	812,557	658,037	11,687,018
Expenses:							
Operating	$	1,795	2,278,184	2,696,976	753,978	399,898	6,130,831
Interest and amortization allocated		—	77,352	656,632	—	—	733,984
Depreciation		—	92,843	514,128	—	68,165	675,136
O&M overhead allocation		3,584	118,205	194,505	25,156	20,372	361,822
Total expenses	$	5,379	2,566,584	4,062,241	779,134	488,435	7,901,773

	2013						
		Bookstore	Food service	Main residence halls	Outside conferences and other	Auxiliary property pool	Total
Revenues	$	126,623	3,555,803	6,179,684	781,154	527,335	11,170,599
Expenses:							
Operating	$	2,720	2,228,053	2,489,386	839,486	385,938	5,945,583
Interest and amortization allocated		—	81,296	682,496	—	—	763,792
Depreciation		—	94,304	499,164	—	70,175	663,643
O&M overhead allocation		4,969	139,552	242,530	30,657	20,697	438,405
Total expenses	$	7,689	2,543,205	3,913,576	870,143	476,810	7,811,423

(16) Expenses by Function

Total expenses by functional classification, including indirect expenses, after allocating operations and maintenance of plant, depreciation, and interest on indebtedness are as follows for the years ended June 30, 2014 and 2013:

		2014	2013
Instruction	$	28,959,579	29,639,688
Academic support		5,293,930	4,625,084
Student services		12,032,360	11,480,920
Institutional support		9,764,105	9,096,346
Auxiliary enterprises		7,901,773	7,811,423
	$	63,951,747	62,653,461

Included in institutional support are costs of $2,187,738 and $2,108,394 associated with fund-raising activities in 2014 and 2013, respectively.

(17) Assets Held in Trust by Others

The College has been designated the beneficiary of the income of a portion of certain trust funds. The related assets are neither in the possession nor under the control of the College, but are recorded at their estimated fair value. Amounts received or accrued from these trusts were $261,017 and $275,975 for 2014 and 2013, respectively, and are included in the change in value of split-interest agreements for the years then ended.

(18) Endowment and Quasi-Endowment Funds

The College's endowment consists of approximately 365 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act of 2007 (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction (if any) of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

Endowment net assets consist of the following at June 30, 2014, excluding annuity and trust funds:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:				
Instruction and operations	$ —	8,321,993	16,917,393	25,239,386
Student aid	(41,737)	11,891,572	26,294,251	38,144,086
Contributions receivable	—	19,820	—	19,820
Board-designated endowment funds	40,051,587	—	—	40,051,587
Total endowment net assets	$ 40,009,850	20,233,385	43,211,644	103,454,879

Endowment net assets consist of the following at June 30, 2013, excluding annuity and trust funds:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:				
Instruction and operations	$ (17,719)	5,468,206	16,601,593	22,052,080
Student aid	(171,347)	7,047,142	25,569,686	32,445,481
Contributions receivable	—	—	153,722	153,722
Board-designated endowment funds	33,540,612	—	—	33,540,612
Total endowment net assets	$ 33,351,546	12,515,348	42,325,001	88,191,895

(Continued)

Changes in endowment net assets for the year ended June 30, 2014 are as follows, excluding balances associated with annuities and trusts:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2013	$	33,351,546	12,515,348	42,325,001	88,191,895
Investment return:					
Investment and other Income		2,625,141	4,173,215	20,481	6,818,837
Net appreciation		3,758,641	5,686,065	14,808	9,459,514
Total investment return		6,383,782	9,859,280	35,289	16,278,351
Contributions		1,056,244	19,820	861,354	1,937,418
Appropriation of endowment assets for expenditure		(1,287,303)	(2,171,063)	—	(3,458,366)
Transfer to create board-designated funds		505,581	—	—	505,581
Endowment net assets, June 30, 2014	$	40,009,850	20,223,385	43,221,644	103,454,879

Changes in endowment net assets for the year ended June 30, 2013 are as follows, excluding balances associated with annuities and trusts:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2012	$	28,796,700	7,977,062	41,332,830	78,106,592
Investment return:					
Investment income		1,583,338	2,528,956	13,430	4,125,724
Net appreciation		3,178,855	3,997,834	3,444	7,180,133
Total investment return		4,762,193	6,526,790	16,874	11,305,857
Contributions		285,326	100,000	975,297	1,360,623
Appropriation of endowment assets for expenditure		(1,211,500)	(2,088,504)	—	(3,300,004)
Transfer to create board-designated funds		718,827	—	—	718,827
Endowment net assets, June 30, 2013	$	33,351,546	12,515,348	42,325,001	88,191,895

During the years ended June 30, 2014 and 2013, the College identified certain net asset balances that had been improperly reported or carried as restricted net assets in prior years, although all external restrictions had been met or the amount should not have been reported as restricted to begin with. Accordingly, the College reclassified these amounts as shown as other changes and transfers among funds on the statements of activities for the years ended June 30, 2014 and 2013.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the College to retain as a fund of perpetual duration. If losses reduce the assets of a donor-restricted endowment fund below the donor-restricted corpus, temporarily restricted net assets will be reduced until the accumulated gains associated with a fund are reduced to $0. At that point, further losses reduce unrestricted net assets. The value of donor-restricted endowment funds, with a fair value of associated assets that is less than the original gift amount, at June 30, 2014 and 2013 were approximately $42,000 and $189,000, respectively. Gains that restore the corpus value will be recorded as increases in temporarily restricted net assets after replacing any losses charged to unrestricted net assets.

(c) Return Objectives and Risk Parameters

Endowment and other board-designated funds are invested on the basis of a total return policy to provide income and to realize appreciation on invested assets. Under this policy, a portion of capital gains, in addition to investment income, can be used to support operations. In certain circumstances, the Board of Trustees has authorized spending from endowment funds that have a fair value less than the historical gift value. In all cases, authorized spending amounts are utilized in accordance with donor-imposed restrictions on the use of income earned by the endowment funds.

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a custom index composed of 25% S&P 500 index (Cap Wtd), 10% Russell 2500 index, 20% of the MSCI ACW Ex-U.S. index (Net), 5% MSCI World Ex-U.S. Small Cap index (Net), 20% Barclays Capital U.S. Aggregate bond index, 4% Barclays Capital U.S. Treasury Inflation Notes (1-year to 10-year index), 10% Custom Marketable Alternatives Index, and 6% of Linfield’s Real Estate actual return, while assuming a moderate level of investment risk. The College expects its endowment funds, over three to five years, to provide an average annual real rate of return of approximately 8.5% annually. Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on investments in equities to achieve its long-term return objective within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of appropriating for distribution each year 4.5% of its endowment funds' average fair value using the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College's endowment investment policy strives to have the investment portfolio returns grow the endowment such that they cover the spending rate as well as expenses, while growing the endowment corpus at a rate that outpaces inflation. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

At June 30, 2014 and 2013, the spending rate adopted by the College was 4.5% of a 20-quarter moving average market value of pooled net assets with the allocation of earned income made annually.

Substantially all investments of the College held for endowment are pooled for investment purposes. Income earned on endowment fund investments is allocated on the basis of each fund's proportionate interest in the pooled investment portfolio.

(19) Commitments and Contingencies

The College receives and expends money under federal grant programs and is subject to audits by cognizant governmental agencies. Management believes that any liabilities arising from such audits will not have a material effect on the College.

The College has placed certain of its medical insurance coverage with the Pioneer Educators Health Trust (PEHT), formulated by seven similar western colleges and universities for the purpose of providing medical, dental, and vision insurance to higher education institutions. Under the agreement, member institutions are required to make contributions to the fund at such times and in an amount as determined by the Trustees for the various benefit programs sufficient to provide the benefits and pay the administrative expenses of the Plan, which are not otherwise paid by the College directly, and to establish and maintain a minimum reserve as determined by the Trustee. In the event that losses of PEHT exceed its capital and secondary coverages, the maximum contingent liability exposure to the College is approximately $1,034,027. This exposure will fluctuate based on factors including changes in actuarial assumptions, medical trend rates, and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

(20) Subsequent Events

The College has evaluated any subsequent events after the statement of financial position date of June 30, 2014 through October 31, 2014, which was the date the financial statements were issued.

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